

Message Text

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ORIGIN EB-07

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EUR/CAN - DBLAKEMORE

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FM SECSTATE WASHDC

TO AMEMBASSY OTTAWA

C O N F I D E N T I A L STATE 247681

E.O. 11652: GDS

TAGS: ENRG

SUBJECT: ENERGY: INCREASE IN CRUDE OIL EXPORT CHARGE

REF: OTTAWA 3843

1. DEPARTMENT NOTES WITH CONCERN THE APPARENT CANADIAN GOVERNMENT SHIFT IN RATIONALE FOR DETERMINATION OF CRUDE OIL EXPORT TAX. WE HAD PREVIOUSLY UNDERSTOOD THAT CANADIAN GOVERNMENT CRUDE OIL EXPORT TAX WAS AN ATTEMPT TO ADJUST THE CANADIAN DOMESTIC PRICE TO PRICE LEVEL OF ALTERNATIVE OIL IN THE CHICAGO MARKET. AS EXPLAINED EARLIER THIS YEAR BY THE CANADIAN EMBASSY AND NEB OFFICIALS THIS WAS DONE BY MONTHLY ASSESSMENT OF FOB CRUDE COSTS, TRANSPORTATION CHARGES, IMPORT FEES, ETC. AND WAS JUSTIFIED AS NECESSARY TO OPTIMIZE RETURN TO CANADA FROM SALE OF WASTING RESOURCE.

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2. RECENT DECISION OF CANADIAN GOVERNMENT TO ALLOW

NEB TO FOLLOW OPEC OIL CARTEL LEAD AND REPLICATE TEN PERCENT PRICE INCREASE APPEARS TO DEPART FROM PREVIOUS PROCEDURE. IT FURTHER DISCRIMINATES AGAINST US REFINERS DEPENDENT ON CANADIAN CRUDE OIL.

3. IF CANADIAN GOVERNMENT IS STILL FOLLOWING PROCEDURE AS EXPLAINED TO US, THERE SHOULD BE NO INCREASE IN EXPORT TAX UNTIL AND UNLESS THERE IS EVIDENCE THAT THE LATEST PRICE INCREASE IS REFLECTED IN THE CHICAGO MARKET. THIS BURDEN OF PROOF SHOULD BE ON THE CANADIANS RATHER THAN ON US REFINERS WHO, AS NEB OFFICIAL CITED IN REFTEL STATES, MAY FOLLOW "REMITTANCE" PROCEDURES AND OBTAIN RELIEF FROM 1 DOL AND 5 CENT INCREASE IF THEY CAN PRESENT A CONVINCING CASE.

4. EMBASSY SHOULD RAISE THIS SUBJECT WITH APPROPRIATE GOC OFFICIALS DRAWING ON PARAS 1-3 AND (1) EXPRESSING OUR CONCERN OVER THE GOC DECISION TO INCREASE THE EXPORT TAX BEFORE THERE IS ANY EVIDENCE THAT THE OPEC PRICE INCREASE HAS AFFECTED PRICES IN THE CHICAGO MARKET AND, IF SO, BY WHAT AMOUNT; AND (2) ASKING FOR EXPLANATION AS TO WHAT CRITERIA WERE USED TO COMPUTE THIS INCREASE IF THE PROCEDURES PREVIOUSLY OUTLINED TO US ARE NO LONGER BEING USED.

5. IN THE MEANTIME, DEPARTMENT WILL ATTEMPT TO ASSEMBLE DATA ON ACTUAL LAID DOWN COST OF CRUDE OIL IN THE MID WEST FROM FEA AND OTHER SOURCES FOR REPRESENTATIONS TO CANADIAN GOVERNMENT ALONG LINES SUGGESTED IN REFTEL. INGERSOLL

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